INDUSTRY CANADA
Prefabricated Housing Review

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Exports Set New Record
Asian Markets Continue to be Weak

International Trade

In 1999, prefabricated building exports reached a new record level, rebounding from weak 1998 exports. Manufacturers saw mixed signals from their primary export markets. Prefabricated building exports to Asia fell, continuing the trend set in 1998. In contrast, exports to the US and the European Union were healthy, recording strong growth. Canadian prefabricated building exports were $437.5 million in 1999, an increase of 16 percent over exports of $377 million in 1998. The record exports in 1999, represent a further 8 percent increase over the previous record set in 1997 ($404.25 million).

Exports to the US

After growing by 36 percent in the third quarter, prefabricated building exports grew by a more modest 13 percent in the fourth quarter, reaching $117 million. Despite the decline in the rate of growth between the third and fourth quarters, exports to the US finished 1999 at $286.3 million, an overall increase of 31 percent over 1998. Exports to the US now represent the largest and fastest growing share of prefabricated building exports. In just two years, the share of exports to

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the US increased from only 33 percent (1997) to 65 percent in 1999.

The slower fourth quarter export growth rate was due to slowdowns in the US Midwest and Northeast regions. Exports to the Midwest were up only 1 percent in the fourth quarter, while exports to the Northeast fell 3 percent. Despite the setback in the fourth quarter, exports to the US Northeast reached $83.7 million in 1999, an increase of 29 percent from 1998. The Northeast states of New York and Maine ($27.2 and $19.6 million respectively) were the largest export destinations in the region.

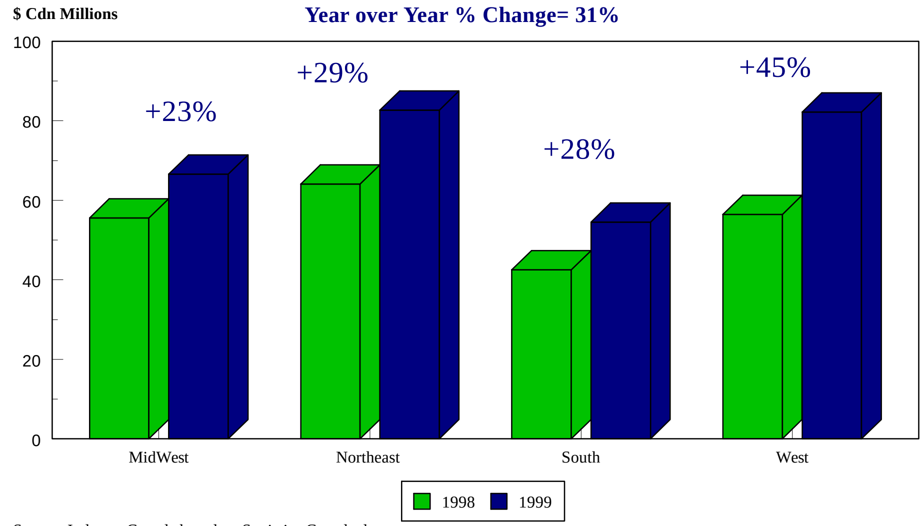
North Dakota and Michigan were the primary destinations for Canadian prefabricated buildings in the US Midwest. Exports to these states were $14.8 and $13 million respectively in 1999. Total exports to the US Midwest for the year were $66.6 million, up 20 percent from 1998.

The US West is the second largest market for prefabricated buildings in the US. Exports reached $82.2 million, 45.5 percent higher than the $56.5 million in 1998. Much of the growth occurred in the third and fourth quarters. Fourth quarter exports grew by 65.5 percent to $25.5 million, more than any other region. Washington state was the largest market for Canadian prefabricated buildings in this region, growing to $25.3 million in 1999.

Exports to the US South were up 28 percent to $54.5 million in 1999. The US South accounts for almost half of all new construction activity in the US but only 19 percent of prefabricated building exports. Florida and Virginia are the leading export markets in this region, with Canadian shipments of $10.2 and $10.1 million respectively.

Prefabricated Building Exports to the US: 1998/1999 Comparison By Region

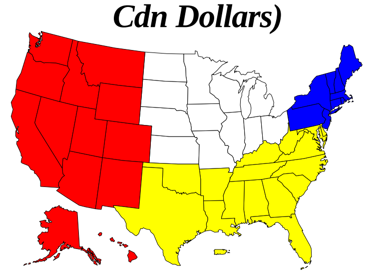
1998: $219 Million
1999: $286.3 Million
Year over Year % Change= 31%



Source: Industry Canada based on Statistics Canada data

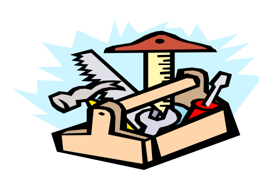
Exports to the Top 20 US States 1999

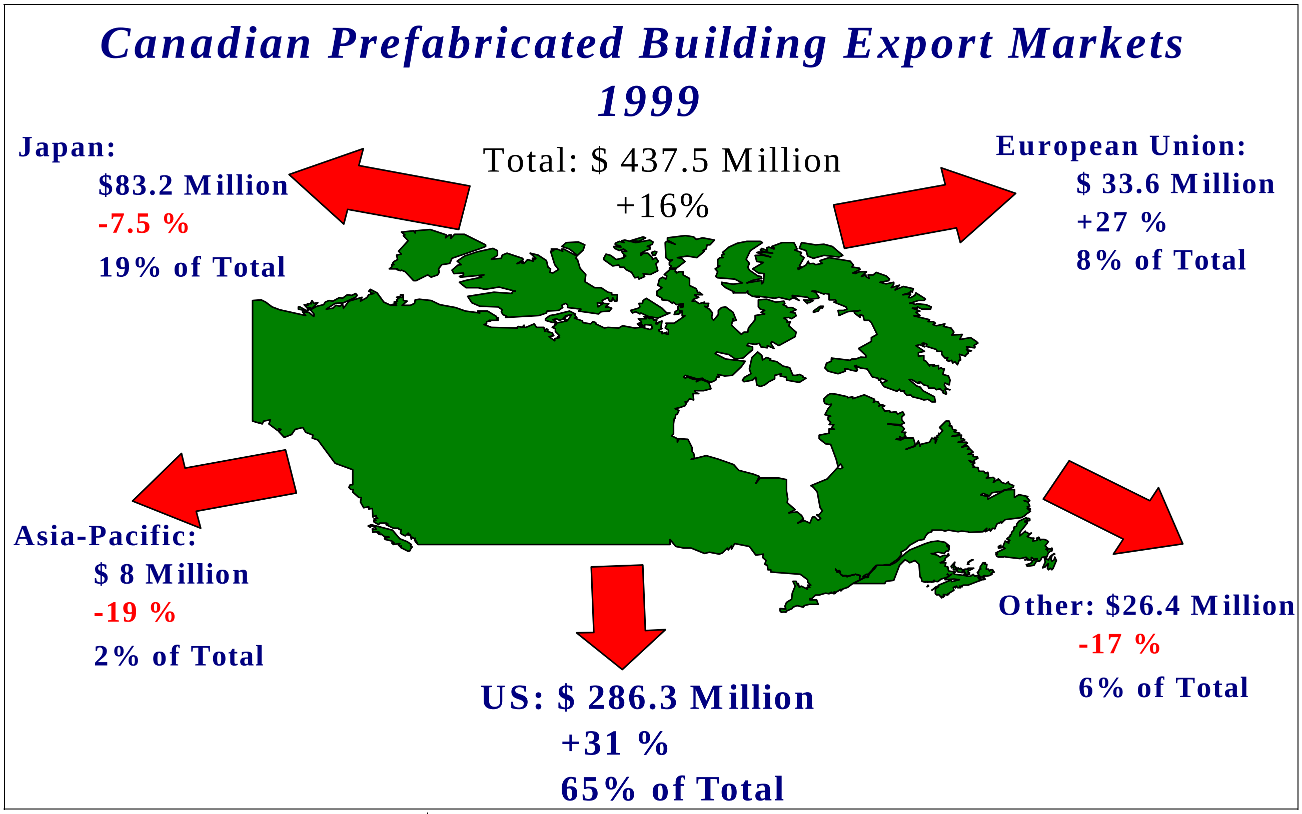
(In Thousands of Cdn Dollars)



Source: Industry Canada Based on Statistics Canada data, 2000

		1999	1998	% Ch 98/99
1	New York	27,219	22,893	18.9%
2	Washington	25,335	16,055	57.8%
3	Maine	19,641	17,239	13.9%
4	North Dakota	14,828	10,209	45.2%
5	Michigan	13,076	8,369	56.2%
6	Ohio	11,494	6,597	74.2%
7	California	10,779	9,787	10.1%
8	Montana	10,436	6,791	53.7%
9	Florida	10,227	8,996	13.7%
10	Virginia	10,186	6,153	65.6%
11	Massachusetts	10,112	6,783	49.1%
12	Colorado	9,356	4,450	110.2%
13	Alaska	7,843	8,428	-6.9%
14	Texas	7,796	8,546	-8.8%
15	North Carolina	7,519	5,833	28.9%
16	Pennsylvania	7,371	4,867	51.4%
17	Illinois	7,112	6,556	8.5%
18	New Hampshire	6,890	4,076	69.1%
19	Oregon	6,741	4,739	42.2%
20	Georgia	5,729	5,034	13.8%





Offshore Markets

Trade to offshore markets represented 35 percent of Canadian prefabricated building exports in 1999, down from 42 percent in 1998 and 67 percent of 1997.

Exports to Japan were $83.2 million in 1999, down 7.5 percent from $90 million in 1998 and $180 million in 1997. Weak Japanese demand in both the first and second quarters of 1999 hurt exports. Prefabricated building exports to Japan in the third and fourth quarters did however finish higher, as compared to 1998. The Japanese market represented 19 percent of Canadian prefabricated building exports as compared to 45 percent 1997. Total worldwide Japanese imports of prefabricated buildings reached $290 million, or US$200 Million in 1999 according to the World Trade Atlas. Canada was the single largest exporter of prefabricated buildings to Japan last year.

Notwithstanding improvements in general economic conditions, demand for Canadian prefabricated buildings in the rest of the Asia-Pacific region were down again in 1999. Exports fell 19 percent for the year, reaching only $8 million. In 1997, exports to this region were as high as $23.3 million and accounted for 6 percent of all prefabricated building exports. In 1999, the percentage had fallen to only 2 percent.

Exports to the European Union were $33.6 million in 1999, up 27 percent from the year before. Strong demand from Germany, the United Kingdom and France accounted for 86 percent of all exports to the EU. Prefabricated building exports to the UK surged 160 percent to $9.2 million, while exports to France jumped 136 percent to $5.3 million. Exports to Germany were down slightly at $14.4 million in 1999. For comparison purposes, the total EU import market for prefabricated buildings was estimated in 1999 to be approximately $503 million or US$347 million.

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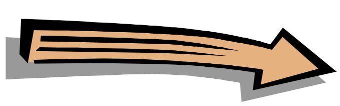
Imports

Prefabricated building imports remained practically unchanged in 1999. Imports were $110.5 million in 1999, compared to $110.4 million in 1998. The US was the primary source of imports, accounting for 93 percent of all imports. Illinois and Pennsylvania were the largest sources of imports by state with $20.4 and $14.5 million respectively. The Netherlands, at a very distant $4.25 million, was the second largest source of imports. Ontario and British Columbia were the major destinations for imports, at $53.5 and $19.1 million in imports respectively in 1999.

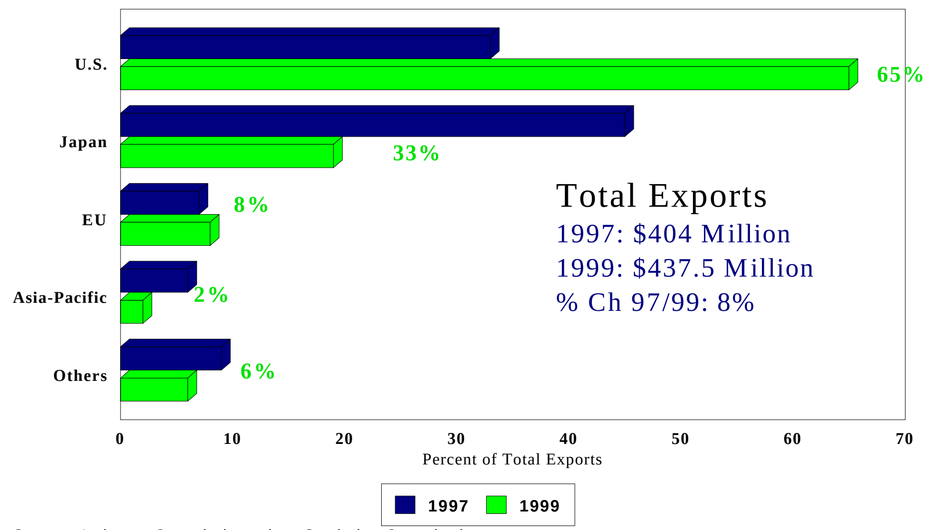
Mobile Homes

Mobile home shipments were $283.3 million, up 10 percent in 1999. Strong demand, primarily from the domestic market, pushed production higher. Fourth quarter shipments saw significant increases, reaching $305 million on a seasonally adjusted and annualized basis. Exports were estimated to have been $8.9 million in 1999, an increase of 13 percent over 1998.

Industry News

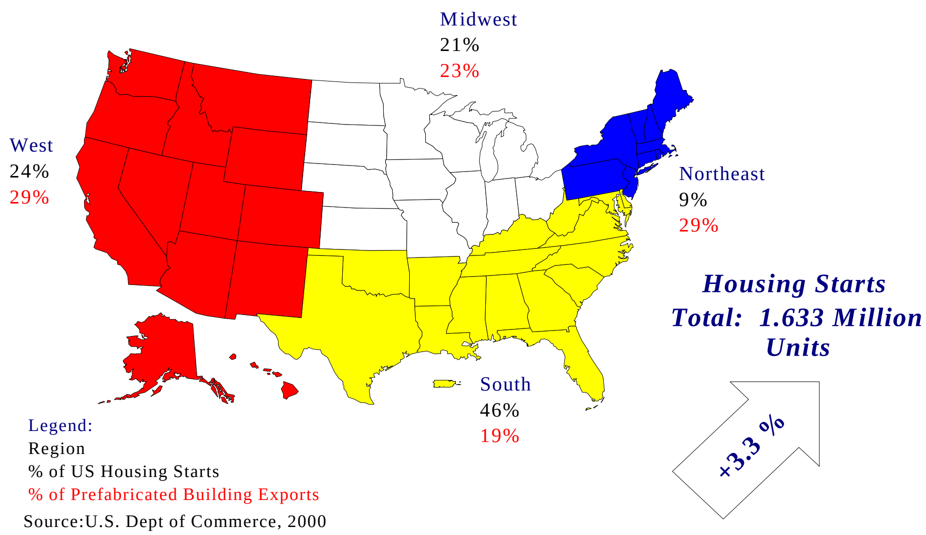


Share of Canadian Prefabricated Building Exports by Region 1997-1999



Source: Industry Canada based on Statistics Canada data

US Housing Starts 1999



Source:U.S. Dept of Commerce, 2000

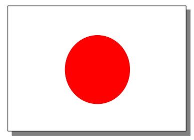
An information booklet titled, "Guide to the Rules Under the North American Free Trade Agreement and U.S. Immigration Law for Canadian Companies in the Housing, Renovation and Residential Construction Sector " has been published on the internet. You can find the document on the Canadian Manufactured Homes Institute web site at **www.cmhi.ca** or contact them by phone at 613-563-3520.

Construction and Housing Review

Construction in Canada

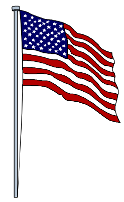
Following healthy economic growth, Canadian housing starts increased more than 12,500 units in 1999, representing a 9 percent annual gain over 1998. Total housing starts in 1999 were 149,968. The fourth quarter was particularly strong for the construction industry. During the same period, inflation remained low and the Canadian currency witnessed marginal gains. Over 11,000 more building permits were issued as compared to 1998. Toronto continues to be the largest construction market, increasing its annual total of building permits by 22 percent to 36,585 in 1999. With totals around 13,000, Montreal also issued more permits this year than last, establishing itself as the second largest market in an industry traditionally dominated by western cities . Some smaller markets such as Halifax, Oshawa and Kitchener experienced substantial gains. Their respective increases were 32, 37 and 35 percent over last year's totals. Although they are still large markets, Calgary and Vancouver suffered minor losses. While Vancouver had a very strong last few months of 1999, Calgary has remained at lower levels in comparison with 1998. The new housing market in 2000 will look to match sustained growth numbers with the rest of the economy, benefiting from mutual prosperity with the United States. Based on analysts' estimates, the short-term outlook for housing starts is favourable.

Construction in Japan



Despite strong November housing starts, December of 1999 indicated a relapse to a level below that of 1998. While Japanese GDP growth was positive at 0.6 percent, this is relative to last year's weak performance where GDP fell 2.8 percent from 1997. The number of housing starts rose from 1.179 million to 1.214 million representing a growth of nearly 3 percent in 1999. Two-by-four housing starts experienced a growth of nearly 11 percent this past year and prefabricated houses rebounded from 1998's totals by 2 percent. This growth may be attributed to deflation, as well as, falling interest rates, led by the Bank of Japan lowering its interest rate to 0 percent. Although most economic analysts are predicting a modest growth in GDP, as well as, housing starts, another consecutive quarter of negative GDP growth will mean Japan will fall back into recession. However, housing starts in 2000 are anticipated by some analysts to grow slowly in the short term as the government looks to encourage investment in the eonomy.

Construction in the United States



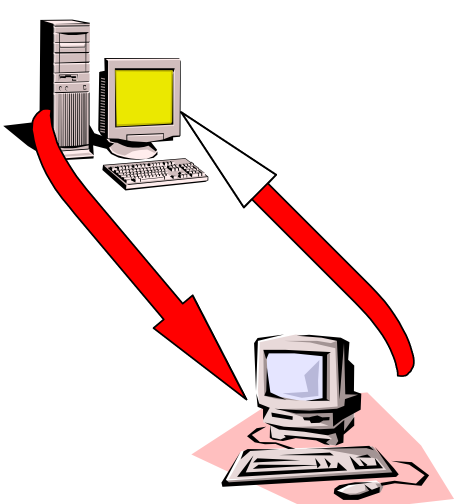
Housing starts in the U.S. for 1999 grew at a rate of 3.3 percent from the previous year, despite falling slightly off pace in the final two months. The rate of growth in building permits issued was slightly under par; growing just under 2 percent from 1.6123 million in 1998 to 1999's figure of 1.6402 million. The US increase in housing starts remained proportionate to the country's strong economic growth: the GDP grew by 4 percent in 1999. Overall, housing starts increased from 1.617 million in 1998 to 1.665 million in 1999. After a particularly strong November, the US Midwest finished the year with an 8 percent growth over the previous year's number of issued building permits, while the South and Northeast Regions experienced growth rates of 2.5 and 3.6 percent, respectively. The West encountered a slight drop from last year. As in previous years, much of the US construction activity has been concentrated in the South and Midwest regions. The threat of inflation in the first half of 2000, combined wth rising producer and consumer prices, are expected to impact housing starts. Most analysts anticipate a decrease in construction market activity for the current year.

Special Feature

DISPELLING THE MYTHS ABOUT E-COMMERCE IN THE BUILDING PRODUCTS INDUSTRY

In November, 1999, Industry Canada commissioned Decima Research Inc., a leading research firm, to identify the perceived barriers to the adoption of e-commerce in the building products industry. Decima conducted focus group sessions with 22 executives (in Toronto and Montreal) whose firms had yet to undertake an e-commerce initiative. Here is a summary of their results.

Decima found that while many of these firms had their own website, all of the participants perceived the Internet as mostly a marketing tool, providing universal and real-time access to information about their company's products and services. Many participants felt that their web site was an effective business tool, and brought them clients that they might not have otherwise.



Participants said that important barriers to introducing e-commerce in their firm included:

- many of their suppliers, clients and end-users don't have computers;
- many senior executives were unfamiliar with Internet technology and its capabilities;
- the financial cost of adopting e-commerce;
- the customized nature of their products did not lend itself well to selling their products on the Internet, and
- many participants were afraid that they did not have the manufacturing capacity to handle the increased demand that the Internet would bring.

Many participants also felt that buying and selling on the Internet would eliminate the personal relationship with buyers, and that their products could not be sold on-line using a credit card. There were also concerns about on-line fraud, hackers and computer viruses.

Here's what Decima had to say about these perceived barriers:

"Several of the perceived barriers to the adoption of e-commerce expressed by focus group participants are **more imagined than real**. Current e-commerce solutions can be tailored for B2B (Business to Business) transactions and processes are not limited to B2C (Business to Consumer) buying and selling. Detailed production designs and build-to-order price quotations can now be transmitted securely over the Internet...E-commerce is not limited to standard, fixed price items. Not all customers and suppliers in a firm's value network need be connected to realize substantial benefits from adopting e-commerce. E-commerce can be used to enhance person-to-person communication with suppliers and customers, rather than eliminate "the personal touch". On-line credit verification is possible, and standard industry delayed payment terms can be accommodated in current B2B e-commerce solutions... [E-commerce] can dramatically reduce costs, increase profits, reach new customers, increase business with existing customers, attract and keep valued employees and build competitive advantage for Canadian firms."

If you would like copies of the report, or have questions about adopting e-business, please contact our E-business Analyst, George Schoenhofer.
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Visit out our E-Commerce website at:
http://strategis.ic.gc.ca/SSG/fb01296e.html